

44  
3304

AM 3.1.2004\*\*

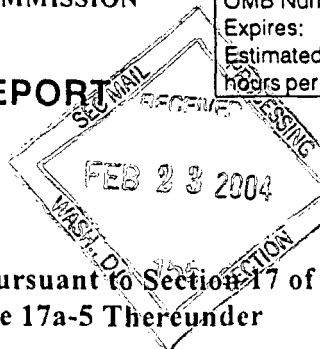
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	October 31, 2004
Estimated average burden hours per response.....	12.00



04002300

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III



SEC FILE NUMBER
47396

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: W. R. Rice Financial Services, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

938 Forest Ave.

(No. and Street)

Portland

Maine

04103

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Barry L. Howgate

(207) 775-3451

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Fortin, Howgate & Harmon

(Name - if individual, state last, first, middle name)

210 Western Avenue

So. Portland

Maine

04106

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 05 2004


FOR OFFICIAL USE ONLY

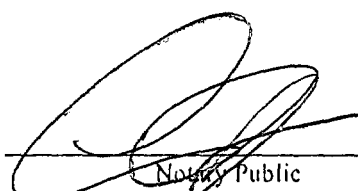
THOMSON  
FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, William R. Rice, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of W. R. Rice Financial Services, Inc., as of December 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

  
Signature  
PRESIDENT  
Title

  
Notary Public

CRISTIE ANN LECLAIR  
Notary Public, Maine  
My Commission Expires June 6, 2006

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Supplemental report of independent auditors

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

W.R. RICE FINANCIAL SERVICES, INC.  
PORTLAND, MAINE

FINANCIAL REPORT  
YEAR ENDED  
DECEMBER 31, 2003

**FORTIN, HOWGATE & HARMON**

Certified Public Accountants  
South Portland, Maine

W.R. RICE FINANCIAL SERVICES, INC.  
DECEMBER 31, 2003

INDEX

INDEPENDENT AUDITORS' REPORT	1
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Stockholders' Equity	4
Statements of Cash Flows	5
NOTES TO FINANCIAL STATEMENTS	6 - 7
SUPPLEMENTARY INFORMATION	
Computation of Net Capital Pursuant to Uniform Net Capital Rule 15c3-1	8
Reconciliation of Computation of Net Capital	9
Statement Regarding Rule 15c3-3	10
SUPPLEMENTARY REPORT OF INDEPENDENT AUDITORS	11 - 12

# FORTIN, HOWGATE & HARMON

Certified Public Accountants

210 Western Avenue • South Portland, ME 04106-2416  
(207) 775-3451 • Fax (207) 879-0926

*Roger L. Fortin, CPA  
Barry L. Howgate, CPA  
Thomas G. Harmon, CPA*

February Twelve  
2 0 0 4

## Independent Auditors' Report

Board of Directors  
W.R. Rice Financial Services, Inc.  
Portland, Maine

We have audited the accompanying balance sheets of W.R. Rice Financial Services, Inc. as of December 31, 2003 and 2002 and the related statements of operations, cash flows, and changes in stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of W.R. Rice Financial Services, Inc. at December 31, 2002 and 2001 and the results of its operations, cash flows, and changes in stockholders' equity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Fortin, Howgate + Harmon*

W.R. RICE FINANCIAL SERVICES, INC.  
BALANCE SHEETS  
DECEMBER 31, 2003 and 2002  
(See Independent Auditors' Report)

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 34,816	\$ 47,406
Commissions Receivable	12,354	3,925
Prepaid Expenses	664	1,636
Marketable Securities	23,984	25,380
Total Current Assets	<u>71,818</u>	<u>78,347</u>
PROPERTY AND EQUIPMENT:	40,664	37,361
Less: Accumulated Depreciation	<u>29,468</u>	<u>24,129</u>
	11,196	13,232
TOTAL ASSETS	<u>\$ 83,014</u>	<u>\$ 91,579</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts Payable	\$ 4,737	\$ 3,325
Accrued Expenses	<u>2,838</u>	<u>2,865</u>
Total Current Liabilities	<u>7,575</u>	<u>6,190</u>
STOCKHOLDERS' EQUITY:		
Common Stock, No Par;		
Authorized 3,000 Shares;		
Issued and Outstanding 3,000 Shares	20,000	20,000
Additional Paid-In Capital	20,000	20,000
Retained Earnings	64,549	73,103
Unrealized Holding Gains (Losses)	<u>(29,110)</u>	<u>(27,714)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>75,439</u>	<u>85,389</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 83,014</u>	<u>\$ 91,579</u>

See Notes to Financial Statements.

W.R. RICE FINANCIAL SERVICES, INC.  
 STATEMENTS OF OPERATIONS  
 YEARS ENDED DECEMBER 31, 2003 AND 2002  
 (See Independent Auditors' Report)

	<u>2003</u>	<u>2002</u>
REVENUES:		
Commissions	\$ 270,702	\$ 286,083
Financial Planning and Advisory Fees	<u>33,232</u>	<u>39,390</u>
	<u>303,934</u>	<u>325,473</u>
EXPENSES:		
Commissions Paid	179,465	173,311
Officers' Salary	60,000	60,000
Other Wages	10,150	11,269
Office Rent	14,700	14,700
Telephone	2,334	2,106
Advertising and Promotion	454	560
Insurance	3,261	5,753
Equipment Rental	1,805	1,538
Vehicle Expense	3,053	3,317
Professional Fees	5,950	5,150
Repairs and Maintenance	5,997	10,393
Retirement Plan Contribution	9,000	9,000
Utilities	5,897	4,127
Training and Seminars	405	635
Office Supplies	1,936	2,018
Regulatory Fees	4,520	5,941
Payroll Taxes	5,791	5,987
Computer Expenses	1,530	589
Charitable Contributions	155	280
Travel and Entertainment	2,862	2,495
Postage and Shipping	914	1,356
Cantella Maintenance Fees	2,467	2,252
Memberships and License Fees	759	1,270
Publications	0	88
Depreciation and Amortization	5,338	3,193
Miscellaneous	864	1,495
Rep. Expense Reimbursement	<u>(16,691)</u>	<u>(20,130)</u>
	<u>312,916</u>	<u>308,693</u>
NET OPERATING (LOSS) INCOME	<u>8,979</u>	<u>16,780</u>
OTHER INCOME:		
Interest	<u>425</u>	<u>783</u>
	<u>425</u>	<u>783</u>
NET (LOSS) INCOME	<u>\$ (8,554)</u>	<u>\$ 17,563</u>

See Notes to Financial Statements.

W.R. RICE FINANCIAL SERVICES, INC.  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2003 AND 2002  
(See Independent Auditors' Report)

	<u>Additional</u> <u>Paid-In Capita</u>	<u>Common</u> <u>Stock</u>	<u>Retained</u> <u>Earnings</u>	<u>Unrealized</u> <u>Holding</u> <u>Gains (Losses)</u>	<u>Total</u>
BALANCE, DECEMBER 31, 2001	\$ 20,000	\$ 20,000	\$ 72,192	\$ (53,094)	\$ 59,098
NET INCOME - 2002			17,563		17,563
STOCKHOLDER DISTRIBUTIONS 2002			(16,652)		(16,652)
UNREALIZED HOLDING GAINS (LOSSES)				25,380	25,380
BALANCE, DECEMBER 31, 2002	\$ 20,000	\$ 20,000	\$ 73,103	\$ (27,714)	\$ 85,389
NET (LOSS) INCOME - 2003			(8,554)		(8,554)
STOCKHOLDER DISTRIBUTIONS 2003			0		0
CHANGES IN UNREALIZED HOLDING GAINS (LOSSES)				(1,396)	(1,396)
BALANCE, DECEMBER 31, 2003	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ 64,549</u>	<u>\$ (29,110)</u>	<u>\$ 75,439</u>

See Notes to Financial Statements.



W.R. RICE FINANCIAL SERVICES, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2003 AND 2002  
(See Independent Auditors' Report)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss) Income	\$ (8,554)	\$ 17,563
Adjustments to Reconcile Net Income To Net Cash Provided by Operating Activities:		
Depreciation and Amortization	5,338	3,193
Changes in Assets and Liabilities:		
Commissions Receivable	(8,429)	5,410
Prepaid Expenses	973	(1,636)
Accounts Payable and Accrued Expenses	<u>1,385</u>	<u>(4,954)</u>
Net Cash (Used) Provided by Operating Activities	<u>(9,287)</u>	<u>19,576</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	<u>3,303</u>	<u>(2,565)</u>
Net Cash (Used) By Investing Activities	<u>(3,303)</u>	<u>(2,565)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions to Stockholders	<u>0</u>	<u>(16,652)</u>
Net Cash (Used) by Financing Activities	<u>0</u>	<u>(16,652)</u>
NET (DECREASE) INCREASE IN CASH	(12,590)	359
CASH AT BEGINNING OF YEAR	<u>47,406</u>	<u>47,047</u>
CASH AT END OF YEAR	<u>\$ 34,816</u>	<u>\$ 47,406</u>

See Notes to Financial Statements.

W.R. RICE FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Business Activity:

W.R. Rice Financial Services, Inc. (the Company) was incorporated on July 25, 1994 and commenced operations in October of 1994. The Company is a broker-dealer engaged primarily in transactions in securities. The Company does business on a fully disclosed basis and, therefore, does not hold or maintain any customer accounts. The Company is a registered broker under the Securities Exchange Act of 1934 and is a member of NASD (National Association of Securities Dealers, Inc.) and SIPC (Securities Investor Protection Corporation).

Cash Equivalents:

For purposes of reporting cash flows, cash and cash equivalents include money market accounts and any highly liquid debt instruments purchased with a maturity of three months or less.

Property and Equipment:

Expenditures for property and equipment, and for renewals and betterments which extend the originally estimated useful life of assets, are capitalized. Expenditures for maintenance and repairs are charged to expense. When properties are disposed of, the related cost and accumulated depreciation are removed and gain or loss is included in the results of operations.

Depreciation for financial reporting purposes is provided for principally on the straight line basis over the estimated useful life of the assets.

Property and equipment which is stated at costs consists of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Leasehold Improvements	\$ 19,760	\$ 12,760	\$ 7,000
Office Furniture and Equipment	<u>20,904</u>	<u>16,708</u>	<u>4,196</u>
	<u>\$ 40,664</u>	<u>\$ 29,468</u>	<u>\$ 11,196</u>

Revenue:

Commission revenues are recorded on a trade date basis.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could defer from those estimates.

W.R. RICE FINANCIAL SERVICES, INC.  
NOTES TO FINANCIAL STATEMENTS (Cont'd)  
DECEMBER 31, 2003

**NOTE 2 - MARKETABLE SECURITIES:**

Investments in marketable equity securities are stated at fair market value. Cost and fair value of marketable securities available for sale at December 31, 2003 are as follows:

	<u>Cost</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>
2538 shares of The Nasdaq Stock Market, Inc.	\$ 32,994	\$ (29,110)	\$ 23,984
1500 Warrants of National Association of Securities Dealers, Inc. to purchase shares of The Nasdaq Stock Market, Inc.	<u>20,100</u>	<u>(20,100)</u>	<u>0</u>
	<u>\$ 53,094</u>	<u>\$ (49,210)</u>	<u>\$ 23,984</u>

**NOTE 3 - RELATED PARTY TRANSACTIONS:**

In November 1997 the Company began leasing office space from its majority stockholder. The rent paid for 2003 was \$14,700. There was no formal lease agreement as of December 31, 2003.

**NOTE 4 - ADVERTISING:**

Direct response advertising consists of various forms of media advertising.

**NOTE 5 - NET CAPITAL REQUIREMENTS:**

The Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1) requires the maintenance of a minimum net capital balance and requires that the Company's aggregate indebtedness, as defined, may not exceed fifteen times net capital, as defined. At December 31, 2003, the Company's net capital for regulatory purposes was \$54,571, which exceeded its required net capital of \$5,000 by \$49,571, and the percentage of aggregate indebtedness to net capital was 13.88%.

**NOTE 6 - RETIREMENT PLAN:**

The Company maintains a retirement plan (Simplified Employee Pension) for all eligible employees. For 2003 a Company contribution of \$9,000 was made.

**NOTE 7 - INCOME TAXES:**

The Company has elected S-Corporation status and therefore the net income of the Company is reported at the shareholder level.

**NOTE 8 - COMPENSATED ABSENCES:**

Employees of the Company are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the cost of compensated absences when actually paid to employees.

## ADDITIONAL INFORMATION

W.R. RICE FINANCIAL SERVICES, INC.  
COMPUTATION OF NET CAPITAL PURSUANT TO  
UNIFORM NET CAPITAL RULE 15c3-1  
DECEMBER 31, 2003

CREDITS:

Stockholders' Equity	\$ <u>75,439</u>
----------------------	------------------

DEBITS:

Nonallowable Assets:	
Property and Equipment	11,196
Receivables From Non-Customers	1,813
Prepaid Expenses	664
Haircuts on Marketable Securities (25,380 X 30%)	<u>7,195</u>
Total Debits	<u>20,868</u>

TOTAL CAPITAL	<u>54,571</u>
---------------	---------------

MINIMUM NET CAPITAL - THE GREATER OF 6 2/3% OF AGGREGATE INDEBTEDNESS OF \$505 OR \$5,000.	<u>5,000</u>
---	--------------

EXCESS NET CAPITAL	\$ <u><u>49,571</u></u>
--------------------	-------------------------

RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL	13.88%
--	--------

TOTAL AGGREGATE INDEBTEDNESS	\$ <u><u>7,575</u></u>
------------------------------	------------------------

See the reconciliation of the computation of net capital pursuant to uniform net capital Rule 15c3-1 included in the Company's corresponding unaudited Form X-17A-5 Part IIA Filing with the computation included in this report.

W.R. RICE FINANCIAL SERVICES, INC.  
RECONCILIATION OF COMPUTATION OF NET CAPITAL  
PURSUANT TO UNIFORM NET CAPITAL RULE 15c3-1  
TO COMPUTATION IN CORRESPONDING UNAUDITED FORM X-17A-5  
PART IIA FILING WITH THE COMPUTATION INCLUDED IN THIS REPORT  
DECEMBER 31, 2003

NET CAPITAL AS REPORTED IN COMPANY'S DECEMBER 31, 2002 UNAUDITED FILING OF PART IIA OF FORM X-17A-5	\$ 56,099
NET AUDITED ADJUSTMENTS	<u>(1,528)</u>
NET CAPITAL AS REPORTED ON SCHEDULE 1 OF THE ADDITIONAL INFORMATION	<u>\$ 54,571</u>

W.R. RICE FINANCIAL SERVICES, INC.  
STATEMENT REGARDING RULE 15c3-3  
DECEMBER 31, 2003

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under paragraph (K)(2)(ii) of that Rule.

## SUPPLEMENTARY REPORT OF INDEPENDENT AUDITORS



# FORTIN, HOWGATE & HARMON

Certified Public Accountants

210 Western Avenue • South Portland, ME 04106-2416  
(207) 775-3451 • Fax (207) 879-0926

*Roger L. Fortin, CPA  
Barry L. Howgate, CPA  
Thomas G. Harmon, CPA*

February Twelve  
2 0 0 4

Board of Directors  
W.R. Rice Financial Services, Inc.  
Portland, Maine 04101

In planning and performing our audit of the financial statements of W.R. Rice Financial Services, Inc. at and for the year ended December 31, 2003, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by W.R. Rice Financial Services, Inc. that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

W.R. Rice Financial Services, Inc.

February 12, 2004

Page Two

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedure for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities and Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, the National Association of Securities Dealers and other regulatory agencies which rely on Rule 17a5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.

*Fortin, Howgate, & Harmon*